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SUBJECT: WILL FINANCIAL, HARVEST, AND ENERGY PROBLEMS CREATE TAJIK  
WINTER STORM ?

Ref A: Dushanbe 1370

Ref B: Dushanbe 1518

1. (SBU) Summary: Inadequate energy supplies and food insecurity remain serious problems for Tajikistan heading into the winter. The water level in the Nurek reservoir is lower than it was this time last year. Lower power generation capacity at Nurek may be offset somewhat by several factors. First, the Talco aluminum plant is dropping production in the face of declining world demand, which may give some more power to cities -- although it is not yet clear how much this will help. New capacity at Sangtuda has come on line and for Dushanbe a nearby thermal plant is being upgraded. Power import contracts with Uzbekistan and Turkmenistan have boosted imports, although Foreign Minister Zarifi told Ambassador on December 29 that Uzbekistan was balking on the transit of Turkmen electricity (septel). Rationing of power began earlier this year than last year, with all parts of the country outside of Dushanbe receiving only six to seven hours of power per day since early October, including the northern city of Khujand, despite promises of full time power there. The government will likely break its promise to spare Dushanbe power cuts over the winter; intermittent outages have been occurring for several months. . The food situation is becoming precarious. Despite official government statistics showing good harvests over the first part of the year, aid organizations say that last year's brutal winter destroyed crops, seed stocks, and livestock, making it increasingly difficult for the rural poor to produce or afford food. The Food and Agriculture Organization (FAO) lists Tajikistan as one of 33 countries in crisis and in need of external food assistance, and in its latest report says food security in Tajikistan is declining in the post-harvest period when, , food security normally would be improving. Food prices have been increasing slightly over the past year. At the same time, remittances from Russia, a critical component of the Tajik economy, have been slowing as a result of the international financial crisis. In the face of these problems, the government vacillates between claims that the situation is well in hand and pleas for more international assistance. End summary.

#### Energy Situation Precarious

2. (U) The Nurek hydroelectric station supplies 75% of Tajikistan's energy. On December 17 the water level in the Nurek reservoir was 884 meters above sea level, 1.8 meters lower than on the same day in 2007, and 28 meters above the level at which power can no longer be produced because of insufficient flow over the turbines. Due to this summer's drought, for the first time in its 28-year history Nurek's reservoir did not fill up completely, peaking in September at 8 meters short of full capacity. On the positive side, the reservoir is dropping by only 30-35 centimeters a day, compared to almost twice that rate at this time last year. This is likely due to stricter limitations on power supplies this year, as well as slightly higher water inflow due to warmer temperatures.

3. (U) Helping the energy situation this year is the

partly-completed Sangtuda-1 power station, built with Russian capital, which will add some 2.7 billion Kilowatt-hours (KWh) per year to the grid once all four of its units are operating (Nurek's annual capacity is 11.2 billion KWh). At present only two of Sangtuda-1's units are working; a third began production two months ago but was stopped to make repairs. In addition, the Dushanbe heating station is currently operating at 84 Megawatts. But it is slated to severely reduce production after January 1, 2009, when Uzbekistan will reportedly increase the price at which it sells natural gas to Tajikistan from \$145 to \$300 per 1,000 cubic meters. The Ministry of Energy is currently looking at powering the plant with domestic coal or low-grade mazut oil.

14. (U) Imports are supplementing supplies. Turkmenistan currently supplies Tajikistan with 7 million KWh a day via Uzbekistan's power grid at a cost of 3 cents per KWh plus 0.3 cents in transit fees to Uzbekistan (ref A). Although Turkmenistan has agreed to supply an additional 800 million KWh through April of next year, the transit agreement with Uzbekistan only runs through January 1. Foreign Minister Zarifi told Ambassador December 29 that Uzbekistan is demanding Tajikistan pay for spare parts and infrastructure upgrades before renewing the transit agreement, which they say is at least two months away (septel). Tajikistan similarly awaits renewal of the annual agreement with Uzbekistan to supply an additional 600 million KWh beginning January 1, 2009.

15. (U) Talco, Tajikistan's largest industrial enterprise, recently announced that it would reduce aluminum production by 10% in response to lower world demand. Since Talco consumes 50-60% of all electricity consumed in Tajikistan, this move could free up some additional electricity for consumers.

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#### Remittances Declining, Compounding Other Problems

16. (SBU) Recorded remittances (through the banking system) dropped by 14% from September in October, the last month for which data are available. Although the total for the month is still higher than October of last year, October is usually the peak month for remittances. Many expect that the financial crisis in Russia will cause much steeper declines in successive months. Contacts at the World Bank and the International Monetary Fund say that although data are still lacking, they have seen mounting anecdotal evidence that Tajik workers are returning from Russia in higher numbers this year, due to decreased labor demand in the face of the world financial crisis (ref B). News reports here have been detailing the "massive job cuts" in Russia leading to "desperate" efforts by Tajiks to return home. According to local reports, as a result of the financial crisis a number of commercial banks in Tajikistan have stopped providing loans. A contact at Amonatbank said the main reason is the banks' concern that returning labor migrants from Russia, who make up the majority of potential borrowers, simply do not have the means to repay loans. Banks chose to cut off lending entirely rather than add to the many existing bad debts. In general, banks had been issuing non-collateral loans in amounts under \$1,000 and collateral loans up to \$100,000.

17. (SBU) There are concerns as well about liquidity due to falling remittances. An IMF official noted that the financial crisis may temporarily affect banks' cash flow because of reduced inputs from trading (ref B). Although the somoni has slid against the dollar in the last few days -- from 3.41 to 3.47 -- national financial institutions have assured citizens that the hard currency supply is adequate. There are anecdotal reports that not everyone is convinced, however. Several embassy employees have made large withdrawals of dollars in advance of the holidays, saying they were not confident that the supply of dollars would be adequate. Reduced remittances, they said, will mean fewer dollars flowing into Tajikistan, since the money transfer system is largely dollarized. Concern about the stability of banks is also increasing the demand for cash somonis, which thus also have been in short supply.

18. (SBU) Last week the government announced the formation of a task force comprised of officials, academics, and industry

representatives to monitor the remittance question. Nevertheless, Deputy Minister of Economic Development and Trade Larisa Kislyakova said there was still no indication that remittances were being affected by the crisis. She said October's lower numbers were attributable to seasonal patterns, lower airfares, and new reporting requirements on money transfers. The airfare argument seems implausible: the cost of a one-way ticket from Moscow to Dushanbe is currently \$400-\$800, well above last year's price of \$360.

#### Food Security in Danger

¶9. (SBU) International aid organizations say that one of the most worrisome issues this winter is food security. The FAO's most recent list of 33 "countries in crisis requiring external assistance" includes Tajikistan, which has suffered from crop damage, poor market access, and locust infestations. There are indications that food insecurity is worsening. According to Zlatan Milisic, Director the World Food Programme's Dushanbe office, food security normally would show some improvement at this time of year, because of the recent harvest and because more migrant workers from Russia are home for the winter with money in hand. Many of this year's problems are direct results of last year's difficulties. Last year's brutally cold winter destroyed not only that year's crops, but also seed stocks and livestock that were important for this year's food supplies. These problems were compounded by high food and fuel prices, drought, and the locust problem. Because of high input prices, many farmers planted less, which has resulted in lower food production. The drought that lowered water levels in Nurek also damaged rain-fed agriculture, although the severity of the damage is not yet known. According to official government statistics, however, as of the end of the third quarter this year's harvest was slightly better than last year's.

¶10. (SBU) Mercy Corps' Country Director recently spoke to beneficiaries of one of its non-USAID funded cash assistance programs in a remote village of Rasht District. She learned that all the village households were still carrying debt to local stores and vendors for food borrowed on credit last year. Concurrently, no families are receiving remittances. Two individuals reportedly traveled to Russia but were forced to return when they were unable to find work allegedly owing to their poor Russian skills (few are well educated in this area and the young are no longer learning Russian). However, other factors such as the global financial crisis and the downturn in construction could be equally significant. This village will be cut off from all towns and main

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roads if/when the normal winter snows occur. The Country Director expressed extreme concern about what will happen to the villagers who lack sufficient food stocks and have no source of winter income.

In the past they relied on credit for food when their stocks were depleted, but it is uncertain they will be able to do so again if they have not repaid last winter's debts.

¶11. (U) The prices for many food items, particularly cooking oil, increased dramatically in late summer 2007, and remain high. Other food items have seen modest price drops in recent months, but are still above last year's levels. One bright spot has been the continuing decline in fuel prices. The cost of a liter of gas, 3.80 somoni (\$1.18) in October, has dropped to as little as 2.30 somoni (\$0.68) this month.

¶12. (SBU) Comment: Tajikistan faces potential dangers this winter from several directions. Continuing political problems with Uzbekistan and the chronic shortage of winter energy production mean another season of power difficulties, which impacts not only living conditions but also economic activity. The financial crisis may force many Tajiks working abroad to lose their jobs and return home, lowering remittance flows at the very moment there are more mouths to feed. And last year's brutal winter will have spillover effects this year in reduced harvests and higher food prices, heightening food insecurity.

¶13. (SBU) Comment continued: If this winter turns out to be warmer than last year's, Tajikistan's energy problems may not be as severe

as they were a year ago. However, the winter will still be very difficult for poorer Tajiks, especially in rural areas, because of persistent and worsening food insecurity. The recently issued WFP Food Security Update is striking in that it shows no real improvement from the normal low point in April on -- that is, this year's harvest did not help much. In some areas, the situation is actually worse than it was earlier in the year, and families are ill prepared for the winter. The government, with its dubious harvest figures, inaccurate remittance information, or false assurances about energy supply, may be underestimating the hardships it people face over the next few months. This is further cause for concern. This has not stopped them, however, from issuing an appeal for international donor assistance, in the form of cash to the government, to combat the impact of the financial crisis. End comment.